

Message Text

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71

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FM AMEMBASSY BRIDGETOWN

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E.O. 11652: N/A

TAGS: EFIN, BB

SUBJ: BARBADOS DOLLAR ISSUE

REF: BRIDGETOWN A-33 OF 3/14/72; A-80 OF 6/9/72; A-191; A-185;

A-197

1. INITIAL ISSUANCE OF BARBADOS' FIRST NATIONAL CURRENCY (BARBADOS OR "BDS" DOLLAR), ALTHOUGH PARTIALLY OVERSHADOWED BY ENERGY CRISIS, WENT SMOOTHLY YESTERDAY WITHOUT COMPLICATIONS. ISSUANCE OF NATIONAL CURRENCY MEANS THAT GOB WILL BE FOR FIRST TIME ABLE TO IMPLEMENT FULLY ITS OWN MONETARY POLICIES HERETOFORE IMPOSSIBLE UNDER THE REGIONAL ECCA DOLLAR. COINAGE WILL BE ISSUED FEBRUARY 4, 1974. ECCA NOTES AND BARBADOS DOLLAR WILL BOTH BE LEGAL TENDER AND WILL BE EXCHANGED AT PAR UNTIL FEBRUARY 28, 1974 FOR BANK NOTES AND UNTIL APRIL 30, 1974 FOR COINS.

2. GOB STERLING ASSETS BACKING NEW CURRENCY ARE GUARANTEED BY BRITISH GOVERNMENT WHICH HAS AGREED TO COMPENSATE GOB WHENEVER US/STERLING RATE OF EXCHANGE FALLS BY 1 PERCENT BELOW \$2.40 FOR A PERIOD OF 30 CONSECUTIVE DAYS. GOB REPORTEDLY REACHED "AMICABLE" AGREEMENT WITH ECCA AGREEING TO COMPENSATE CURRENCY AUTHORITY FOR CERTAIN COSTS RESULTING FROM BARBADOS' WITHDRAWAL.

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3. BARBADOS' CENTRAL BANK ALSO ANNOUNCED RECENTLY THAT RESERVE REQUIREMENTS WILL BE SET AT 2 PERCENT OF LOCAL CURRENCY RESERVES WITH ADDITIONAL REQUIREMENTS FOR BANKS TO HOLD 3 PERCENT OF SUCH RESERVES IN BARBADOS GOVERNMENT BONDS TO BE PURCHASED IN BID SYSTEM BEGINNING MARCH , 1974. NO INTEREST RATE HAS BEEN ANNOUNCED BUT BANKERS BELIEVE BONDS WILL HAVE 90-DAY MATURITY WITH 7-8 PERCENT RETURN.

COMMENT:

BUSINESSLIKE ATTITUDE AND EFFICIENCY OF CENTRAL BANK HAS MADE FOR RELAXED ACCEPTANCE OF NEW CURRENCY ON PART OF LOCAL FOREIGN BANKS AND POPULACE AT LARGE. LOW RESERVE REQUIREMENTS (INCLUDING BOND HOLDINGS) ARE SEEN AS REASONABLE AND PROPER EVEN THOUGH OVERLENT FOREIGN BANKS MAY HAVE TO SCRAMBLE TO COLLECT MONEY TO MEET THESE REQUIREMENTS. MOST EXPECT THAT SOME MONEY WILL CONTINUE TO LEAVE ISLAND OVER NEXT TEN WEEKS; HOWEVER, THOSE MOST IMMEDIATELY AFFECTED WILL BE PERSONS SEEKING TO DISPOSE OF REAL PROPERTY OR ASSETS HERE. (ALTHOUGH WE UNDERSTAND SINGER CORPORATION HAS BEEN RUNNING INTO DIFFICULTIES LAST FEW DAYS WITH GOB IN TRYING TO REPATRIATE SOME US \$300,000 IN PROFITS). MONEY OUTFLOW IS EXPECTED TO CONTINUE TO CONTRIBUTE TO TIGHT MONEY SITUATION BUT CURRENCY ISSUANCE HAS CERTAINLY COME OFF MORE SMOOTHLY THAN MANY FOREIGN BANKERS BELIEVED.
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